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From the Private Secretary

7 June 1989

Dear Rose,

COMMUNITY CHARGE SAFETY NET

The Prime Minister yesterday met Tony Favell MP, David Gilroy Bevan MP and Jeremy Hanley MP at the House of Commons. Your Secretary of State and the Minister of State for Local Government were also present. The MPs had requested the meeting to express their worries about the impact of a community charge safety net.

I should be grateful if you and copy recipients would ensure that this letter is given only a restricted circulation.

John Wheeler MP had originally intended to attend the meeting, but was unable to do so. He did, however, let the Prime Minister have the enclosed note concerning the impact of the community charge in Westminster.

The main points made by the MPs were:

- they were strongly supportive of the principle of the community charge. But they were strongly opposed to an arrangement under which local charge payers in relatively low spending areas faced a safety net addition to their charge bill to finance the provision of local services in other relatively high spending areas.
- such transfers would be extremely difficult to defend politically against the background of the general rationale for the community charge of local charge payers meeting the costs of spending by their local authority. This was made the more difficult by the fact that individual community charge bills would highlight the extent of any safety net addition. This would be particularly difficult in cases where the safety net addition at or close to the presently envisaged maximum of £75 was greater than any excess charge on account of local over-spending. The £75 safety net cost would be viewed as an unfair imposition by central Government.

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- if the Government reached the judgment that it was necessary to give some degree of transitional relief to community charge payers in the high spending authorities the only fair way to implement this would be via the provision of an extra Government grant (financed by the generality of taxpayers) rather than by adding to the bills of charge payers in low spending areas via a self-financing community charge "pool". Tony Favell suggested that if the Exchequer was to fund transitional protection in this way, costs might be some £2 billion over the four year period.
- Ministers should consider very seriously the political consequences of the present safety net proposals.

In response, the Prime Minister and your Secretary of State said that no final decisions had been reached on the operation of the community charge safety net. This was one aspect of the complex set of issues to be settled in this year's local authority settlement, which would need to cover the total amount of grant, its distribution and the design and timetable for any transitional safety net arrangement. The Prime Minister added that, if extra grant was provided, the likelihood was that local authorities would then set their spending plans at a higher level than they would otherwise have done.

Following a further brief discussion, the MPs thanked the Prime Minister for listening to their concerns and left the meeting. The Prime Minister, your Secretary of State and the Minister of State then had a very brief discussion about the way forward. They agreed that, as part of the forthcoming E(LF) work programme, it would be necessary to consider the possibility of changes to the safety net arrangements.

I am copying this letter to Carys Evans (Chief Secretary's Office).

*Yan.
Paul*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

Westminster and the Community Charge

The introduction of the community charge next April will redistribute the local domestic tax burden in Westminster. Some individuals will find that they have to pay less in community charge than they now pay in rates, while other people will find that their new community charge bill is more than their existing rate payment. Of course, some individuals will pay a community charge bill having not paid rates in the past.

Making some groups of people pay for local government for the first time, eg young people living at home, was a major reason for moving over to the new system. However, there are a number of other groups of individuals who will pay much more in local tax bills next April who might not be thought to be targets for the extra burden which community charge will bring.

Within the City of Westminster, many of the electors who will have to pay a much bigger local tax bill in 1990 live in marginal wards. A large number of these people are two adult owner occupier households. An important sub-set of these households are couples who have bought their homes off the Council. Almost all of these households are not on benefit, which suggests that **they are aspiring people who are in work and are thus most unlikely to qualify for community charge rebate.** This latter group includes many electors who, according to polling evidence, are likely to have changed their voting habits from Labour to Conservative following the purchase of their home.

Many couples living in smaller flats in mansion blocks throughout the City will also lose heavily. **Because the losses for many of these households will run to hundreds of pounds a year, the electoral consequences could be severe.**

Other groups of marginal electors who are likely to lose heavily include first-time voters living with their parents, the elderly living in smaller flats and Asian businesspeople and their families. Moreover, losses for these households will generally represent a larger proportion of household income than gains will represent in those homes which gain.

The examples on the separate sheet show, for two real households in Cavendish ward - one of the two most marginal in the City - the rates now paid and the expected community charge for 1990-91.

Example of two owner-occupied households in Holcroft Court, W1

Flat No	Electors	1989 rate bill (£)	1990 community charge (£)	LOSS (£)
75	2	538	840	302
83	5	633	2100	1467

Rates are those actually paid in 1989. Community charge is based on Chartered Institute of Public Finance & Accountancy estimates, as accepted as reasonable by the City.

Possible remedies which would lower Westminster's community charge include:

- (1) adjustments to the 'safety nets' which are being used from 1990-91 to 1994-95 to limit inter-authority shifts in resources
- (2) skewing needs assessments within the Revenue Support Grant so that Westminster's expenditure on education - taken over from high-spending ILEA - is adequately reflected
- (3) increasing the overall level of Revenue Support Grant.

The first two of these options could achieve a considerable improvement to Westminster's position without an increase in overall government support. The third option would lower the community charge generally, which would also help other marginal constituencies.

None of the proposed remedies would affect the principle that every adult would receive a community charge bill. The main aim of the reform would be achieved.